

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 11, 1945

To Chairman Eccles
From Kenneth B. Williams *KBW*

Subject: Comments on "Providing for
Unemployed Workers in the Transition",
by R. A. Lester for C.E.D.

Summary

This report is concerned with measures to cope with the serious problem of unemployment that is expected to accompany reconversion from war to peacetime activity. The report is limited to the transition period, defined to end a year or two after VJ-Day. The analysis and recommendations are intended to be practical and to utilize existing administrative machinery.

Lester's main conclusions are:

1. Unemployment (arising from physical reconversion, frictional difficulties, and curtailed total spending) will probably reach a peak of at least 4 or 5 million during the transition. Under adverse circumstances the total might approximate 10 or even 15 million. At least 50 per cent of the unemployed at the end of the second post-war year probably will have been unemployed for six months or more. This is likely because those first to be laid off tend to be the last to be reemployed.

2. At least one-fourth and maybe one-third of wage-earner families by 1944 had accumulated little, if any, savings in spendable form. Generally speaking families with little or no savings are the ones most likely to experience severe unemployment. Less than one-half of the families unemployed in the transition are likely to have savings sufficient to tide them over as much as three or four months of unemployment.

3. Unemployment Compensation should be the chief means of providing for the unemployed during the transition. Improvements are necessary however, if Unemployment Compensation is to perform its proper role:

(a) Coverage is inadequate with an estimated 5 to 5-1/2 million nonagricultural employees excluded.

(b) Benefits are too small and the duration of benefit payments too short. Total benefit payments are likely to average only about 15 per cent of the wage loss from transition unemployment of covered employees.

(c) Unemployment reserves are excessive and badly distributed. By the end of 1945 total reserves may amount to \$7 or \$8 billion but because of their distribution among the States in watertight compartments, probably one-third to one-half of the funds would not be used even if unemployment went as high as 12 million during the first postwar years.

4. Even if needed changes are made in the Unemployment Compensation program, the transition period will witness increased need for direct relief to the unemployed:

(a) To supplement earnings of workers who are unable to support their families because of irregular work, short hours, or low pay.

(b) To care for those unemployed who are not covered by Unemployment Compensation or who have exhausted their benefit rights.

5. With proper planning and sufficient inducements, on-site employment on Federal and other public work projects, operated under private contract and using regular methods of operation, could hardly be increased by more than 2 million from the beginning of the transition to the end of the first postwar year.

6. Plans for transition unemployment have been characterized by inordinate delay both in Washington and in the States.

Lester's main recommendations are:

1. The Unemployment Compensation program should extend its coverage to include Federal employees, merchant seamen and employees of small firms. Uniform duration of 26 weeks of benefits should be provided with maximum benefits at least as high as \$20 a week in all States. A Federal guarantee fund offering grants to State funds should be established to stimulate States to adopt higher benefits and to make more effective use of the reserves accumulated.

2. A Federal program of grants to States for direct relief should be established as a residual program. A large work relief program is not recommended although circumstances could arise in the second postwar year that would make such a program necessary.

3. A national policy of shortening the work week below prewar levels in order to spread jobs is not recommended.

4. Private employers should make every effort to utilize their workers during reconversion on maintenance, repair, and developmental work, and they should hire workers in advance with employment to begin at a specified later date.

5. A transition program of free education and training should be established primarily for the reconversion and frictional unemployed but enrollment should be open to the employed as well as to the unemployed. The program should be administered by the States and localities with the Federal Government matching State and local expenditures. Enrollees should be eligible for up to 26 weeks of training without cost, extended to a year in exceptional cases.

6. The Federal Government should establish a program of matched grants to States for preparing detailed plans for public work (a Federal appropriation of \$150 million is suggested). Transition public work programs should be highly flexible, require a small proportion of skilled building labor, and arrive at peak employment quickly. Successive levels of projects should be planned and put into operation depending upon the severity of unemployment. A Federal subsidy for the construction of private homes is recommended in preference to emergency work projects of marginal utility.

Evaluation

This report is a good job, technically sound and based upon a thorough understanding of the problem. The recommendations are practical and realistic. Indeed, my main criticism is that the recommendations are too practical. They tend to accept as a goal a minimum program that should constitute only the first step. For example, Lester does not advise Federalizing the Unemployment Compensation system, but merely recommends strengthening the State systems by a Federal guaranty fund. His position is highly realistic in terms of the current political situation, but in justifying his recommendation he almost leaves the impression that Federalization is undesirable. In my opinion anything short of Federalization will be inadequate.

Similarly, he recommends that no large-scale work relief program be undertaken, although his analysis of the probable magnitude and duration of unemployment and his criteria for public works in this period all tend to support the case for work relief. I suspect his recommendation against a work relief program and his recommendation for public works that closely resemble work relief may be semantics designed to please those opposed to the old W.P.A.

In general, his program would be a substantial improvement over the present situation. However, his recommendations do not seem to me to go as far as they should if the problem of transitional unemployment is to be met fully.